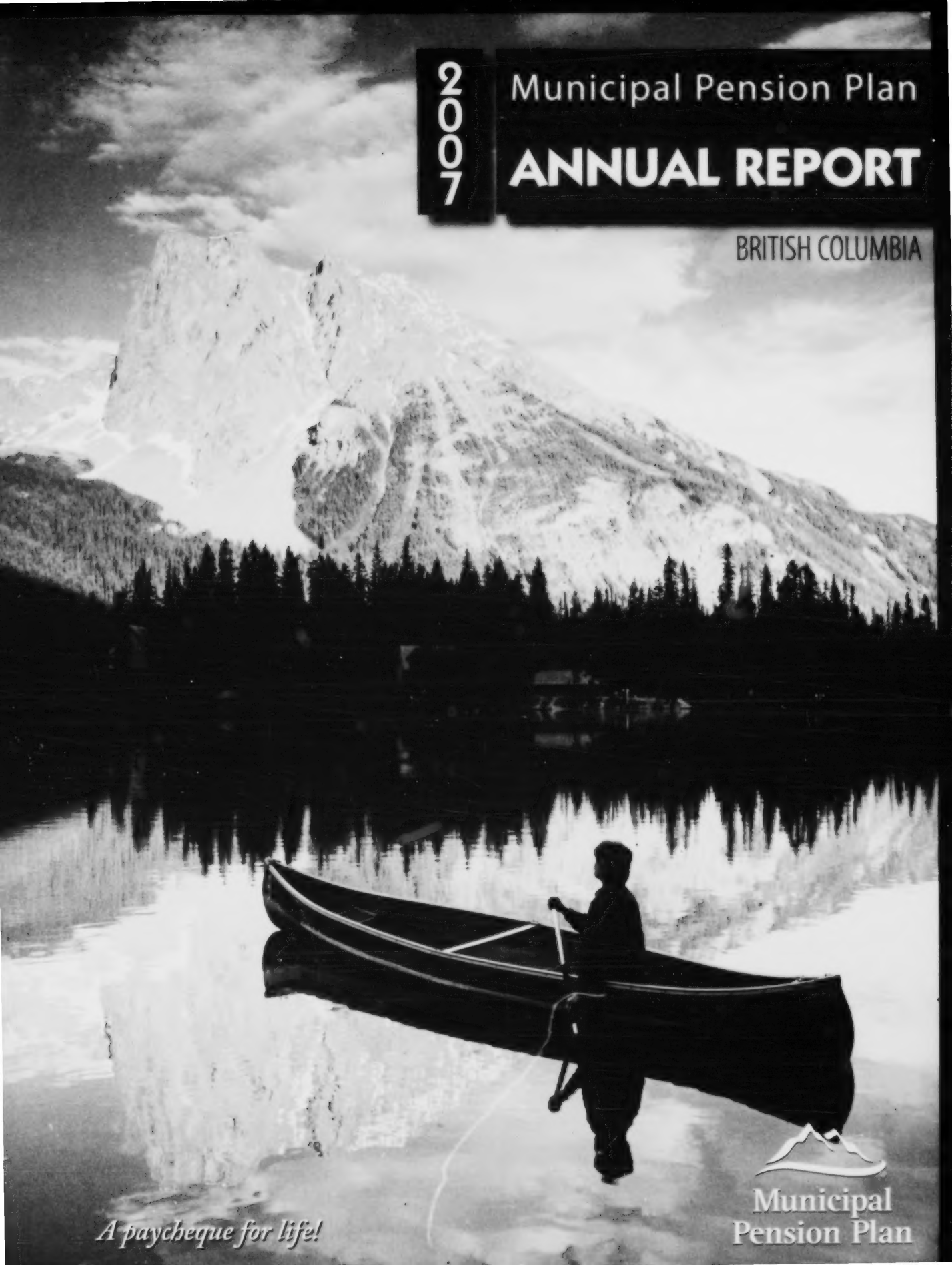

2007

Municipal Pension Plan

ANNUAL REPORT

BRITISH COLUMBIA

A paycheque for life!

Municipal Pension Plan

2007

Municipal Pension Plan

ANNUAL REPORT

January 1, 2007 to December 31, 2007

Municipal
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Reg. T.M. Municipal Pension Board of Trustees

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Financial Highlights

THE MUNICIPAL PENSION PLAN BASIC AND INFLATION ADJUSTMENT INVESTMENT accounts earned 4.4 per cent in 2007, exceeding their benchmark returns of 2.5 per cent. Despite recent turbulence in the financial markets, the Plan continues to grow and is now worth $25 billion.

The largest, positive contributions to the returns were Canadian equities and the domestic real estate pool. Canadian equities generated returns of 9.7 per cent and the real estate pool generated 21.3 per cent last year. See the Basic Account Investment Asset Mix and Performance table below for more details.

Although the Pension Plan grew in 2007, there were some losses due to financial market turmoil. Global growth is expected to slow down, credit markets remain unstable, banks are more reluctant to lend money and commodity prices are soaring, making food and other products more costly. These factors, combined with the rising Canadian dollar, have affected U.S. assets and non-North American stocks, both of which the Pension Plan participates in.

The 2008 outlook is for the markets to remain volatile, however, the plus side of the situation is that it's one of the best times to acquire good long-term investments at favourable prices.

Even with these ups and downs the Plan continues to grow and the basic pension remains guaranteed.

Basic Account Investment Asset Mix and Performance

As at December 31, 2007

Asset Class	Approved Range (%)	Actual Assets (%)	Rate of Return (%)	Performance Benchmark (%)*
Fixed Income	**25–45**			
Short-term	0–10	4.4	4.4	4.5
Mortgages	0–10	4.8	5.3	5.4
Bonds	17–28	21.9	3.5	3.8
Real Return Bonds	0–10	3.9	2.2	1.6
Equity	**55–75**			
Canadian Equities	12–22	16.1	9.7	10.2
U.S. Equities	10–20	12.9	-3.7	-10.7
International Equities	10–20	15.7	-4.6	-4.2
Real Estate	8–15	15.0	21.3	6.4
Private Placements	0–10	5.3	**	**

* Benchmarks are standards to compare against actual investment returns

** Annual rate of return is not available

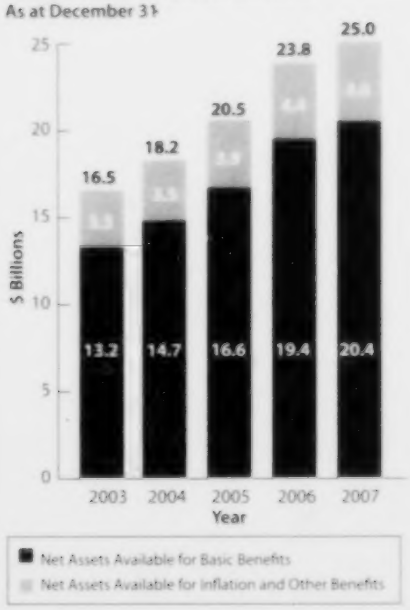
Message from the Trustees

The Value of the Plan

THE MUNICIPAL PENSION BOARD OF TRUSTEES IS PLEASED TO PRESENT THIS 2007 Annual Report. This year, we improved services to members, realized efficiencies in operations, and maintained a high level of satisfaction among members, employers and other stakeholders. It was a year of great success for the Plan and all who are a part of it.

With investments of over $25 billion, the Municipal Pension Plan is securing the future for more than 230,000 active, inactive and retired members. The Board is proud to note that, even with a challenging investment environment in 2007, the growth of the pension fund exceeded benchmarks. The Net Assets Available for Benefits graph shows how the fund has grown over the past five years.

Net Assets Available for Benefits
As at December 31



More and more, people are realizing the value of pension plans such as ours. For employers, the ability to offer superior compensation that includes a defined-benefit pension plan is enhancing the recruitment and retention of valuable, committed staff. For members, the Municipal Pension Plan offers peace of mind for the future and greater freedom to enjoy life today. And finally, the use of pooled capital to invest in sustainable, socially responsible companies benefits us all.

In 2007, this Board committed to increase awareness among members, employers and other stakeholders about the real value of the Municipal Pension Plan.

Acting on our direction, the BC Pension Corporation produced an array of new educational materials and delivered seminars to more members, particularly active members contemplating their future. We also made greater use of technology to share information with members, improving our website and webcasting our annual general meeting. Additionally, we rolled out our first set of videos informing you of the value of the Plan. On the investment side, we took the important step of becoming a signatory to the United Nations *Principles for Responsible Investment*.

In 2007, the Board also approved a five-year service delivery plan and three-year strategic communications plan. These are forward-looking documents that will guide the Board as we seek to provide the best service and greatest value to members and employers in the years to come. On page 24 of this report you will find out just who the trustees of the Municipal Pension Plan are.

We would like to express our appreciation to the staff and executive of the BC Pension Corporation and BC Investment Management Corporation for the service they provided this year. Their professionalism and commitment to client service is highly valued by the Municipal Pension Board of Trustees and, most assuredly, by the members and employers they interact with on our behalf.

Kenneth Bayne

Ken Bayne, Chair
Municipal Pension Board of Trustees

A Message from the British Columbia Investment Management Corporation

DESPITE A CHALLENGING YEAR FROM AN INVESTMENT PERSPECTIVE, BRITISH Columbia Investment Management Corporation (bcIMC) generated a return of 4.4 per cent for the Municipal Pension Plan (the Plan), compared to the Plan's benchmark, or expected market return, of 2.5 per cent. This excess return of 1.9 per cent means that bcIMC's investment decisions added $446.8 million in additional value for the Plan, net of all investment expenses. Furthermore, 2007 marks the fourth consecutive year bcIMC has met or exceeded the Plan's investment performance benchmarks.

Investment income is an extremely important contributor to the growth of the Plan. In 2007, bcIMC's investment activities generated total investment income of $1.1 billion, growing the total Plan assets to $25.0 billion. The bcIMC achieved these results by adhering to our investment philosophy of diversification, due diligence, and discipline. Diversification across investments, asset classes, and market regions reduces the Plan's overall risk and provides more stable rates of return. Due diligence means that bcIMC strives to understand all of the risks and returns of existing holdings, as well as new opportunities, in order to make prudent investment decisions. Finally, discipline is important because investor sentiment can change quickly and a disciplined approach is essential in order to prevent the portfolio from being whipsawed by market forces. This investment philosophy served us well in 2007, when markets were volatile and bcIMC was able to position the portfolio defensively, manage the risks in the markets, and preserve the Plan's capital.

Investment income is an extremely important contributor to the growth of the Plan. In 2007, bcIMC's investment activities generated total investment income of $1.1 billion, growing the total Plan assets to over $25.0 billion.

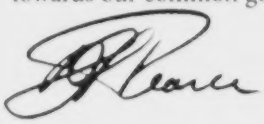
For more detail on investments, see the two tables on pages 4 and 5.

Managing costs is another way that bcIMC adds value to the Plan on behalf of Trustees. The bcIMC operates on a cost-recovery, not-for-profit basis. This fact, combined with our large size and economies of scale, means that bcIMC's fees are significantly below those of other investment managers.

In striving to exceed the Plan's performance and service expectations, bcIMC seeks high standards of corporate responsibility in the companies in which we invest. In particular, bcIMC believes that responsible corporate behaviour with respect to environmental, social and governance factors will generally contribute to better long-term financial performance of companies. I encourage plan members to learn more about bcIMC and our responsible investment activities by reviewing our website: **www.bcimc.com**.

A Message from the British Columbia Investment Management Corporation
(continued)

In closing, I would like to note that it has been a pleasure to work with the Municipal Pension Board of Trustees and thank the Board for its support and direction. The bcIMC has a long and successful history of providing funds management services to the Municipal Pension Plan. We look forward to building on this relationship in the future, and working in partnership with the Board towards our common goal of fulfilling the pension promise.



Doug Pearce
Chief Executive Officer
British Columbia Investment Management Corporation

For further information on the investment portfolio, visit the bcIMC website at **www.bcimc.com.**

Investments Held as at December 31, 2007

	Market Value ($ Thousands)	Asset Mix Market Value (%)
Short-term		
Money Market	243,842	1.0
Short-term bonds (1–5 years)	843,585	3.4
	1,087,427	4.4
Bonds		
Government	67,104	0.3
Universe	4,396,569	17.5
Long-term	991,632	4.0
Real Return	956,135	3.8
	6,411,440	25.6
Canadian Equities		
Indexed	1,913,033	7.6
Actively Managed	2,121,826	8.5
	4,034,859	16.1
U.S. Equities		
Indexed	2,050,358	8.2
Actively Managed	1,178,195	4.7
	3,228,553	12.9
International Equities		
Asia	737,838	3.0
Europe	1,286,285	5.1
Europe, Australia and the Far East	1,904,035	7.6
	3,928,158	15.7
Real Estate, Mortgages, Private Placements and Foreign Currency		
Real Estate	3,753,605	15.0
Mortgages	1,194,996	4.7
Private Placements	1,354,871	5.4
Foreign Currency	40,438	0.2
	6,343,910	25.3
Total Investments	**$25,034,347**	**100.0**
2006 Comparison	$23,739,975	

Investments Held as at December 31, 2007

(Underlying investments are in pooled portfolios.)

Top 10 Holdings

Canadian Equities

Company	Market Value ($ Thousands)	% of Total Canadian Equities
Suncor Energy	196,587	4.9
Manulife Financial	175,251	4.3
Royal Bank Of Canada	172,131	4.3
Encana Corporation	157,466	3.9
Toronto Dominion Bank	147,254	3.6
Bank Of Nova Scotia	141,598	3.5
Research In Motion	126,551	3.1
Potash Corp Of Saskatchewan	115,780	2.9
Power Corp Of Canada	108,307	2.7
Petro-Canada	93,524	2.3
Total Top Ten	**1,434,449**	**35.5**
Total Canadian Equities	**$4,034,859**	**100.0**

U.S. Equities

Company	Market Value ($ Thousands)	% of Total U.S. Equities
Exxon Mobil Corp	93,131	2.9
General Electric	89,249	2.8
AT&T Inc	68,913	2.1
Microsoft Corp	66,585	2.1
Procter & Gamble	51,144	1.6
Bank Of America	45,177	1.4
Altria Group Inc	40,592	1.2
Chevron Corp	40,160	1.2
JP Morgan Chase	38,459	1.2
Pfizer Inc	38,335	1.2
Total Top 10	**571,745**	**17.7**
Total U.S. Equity	**$3,228,553**	**100.0**

International Equities

Company	Market Value ($ Thousands)	% of Total International Equities
Royal Dutch Shell	71,586	1.8
Total	58,491	1.5
Vodafone Group	44,044	1.1
Nestle SA	39,974	1.0
E.On Ag	38,869	1.0
BHP Billiton Ltd	37,902	1.0
Rio Tinto Limited	35,881	0.9
BP PLC	35,732	0.9
ENI	35,501	0.9
HSBC	34,554	0.9
Total Top 10	**432,534**	**11.0**
Total International Equities	**$3,928,158**	**100.0**

Message from the BC Pension Corporation

THE BC PENSION CORPORATION IS ONE OF CANADA'S LARGEST PUBLIC SECTOR pension administrators, and we are recognized around the province and beyond for the substantial strides we have made in improving service, reducing costs and satisfying clients.

We are proud to serve the Municipal Pension Board of Trustees by providing a comprehensive range of pension benefit and information services to the members and employers of the Plan, paying pension benefits, managing contributions, and providing policy, financial and communications services to the Municipal Pension Board of Trustees.

The Pension Corporation's overarching goal is to make the pension experience easy for members, employers and trustees alike. In 2007–08, we are developing new educational materials to help achieve that, including a new seminar series called "Your Pension, Your Future" and "Thinking About Retiring" as well as a host of publications.

We also began major improvements to our computer systems. This included the first phase of replacing technology used to administer retired members' pensions and upgrades to the My Account portion of the website accessible to members and employers. These changes empower members to make better-informed decisions about their career and pension options, and they help us provide better, simpler service in an increasingly complex environment.

I would like to recognize the employees, management and executives of the Pension Corporation. Nothing would have been possible without this amazing group of people. The corporation has worked hard to serve you by ensuring that you receive great value and service you trust from people who care. We look forward to serving you in the years ahead.

I would also like to thank the Municipal Pension Board of Trustees for the opportunity to work with you. It is a pleasure to serve you. With your direction and encouragement, we will continue our journey of innovation and continuous improvement.

I am leaving my post as Chief Executive Officer of the BC Pension Corporation at the end of April 2008. Chief Operating Officer Louise Young will be interim CEO until a replacement is recruited.

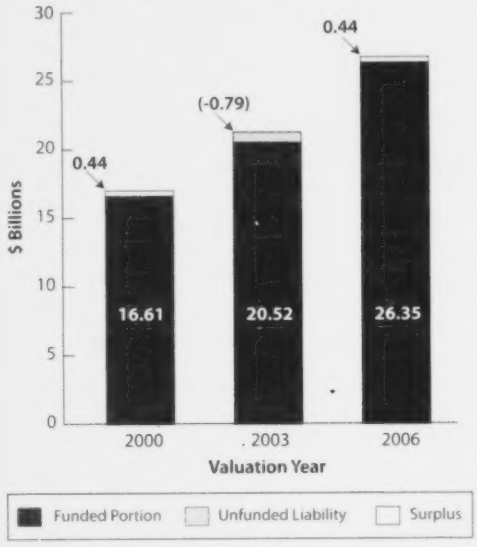
Gail Stephens
Chief Executive Officer
BC Pension Corporation

The Value of the Plan—It's Guaranteed

THE MUNICIPAL PENSION BOARD OF TRUSTEES IS PROUD TO OFFER A DEFINED benefit pension plan to employees and employers in British Columbia. A defined benefit plan means the basic pension benefit for plan members is guaranteed. How do the Trustees accomplish this?

First, both plan members and their employers contribute to the Plan in the amounts that are required to fund the benefit. Once the contributions are in the Plan, the money is invested. Investment is a key component of the guaranteed pension benefit. At least 80 per cent of the final pension benefit comes from investment returns, with 20 per cent coming from contributions.

Funding of the Total Basic Benefit Liability
As at December 31



While the growth of the Plan's assets depends on investment income, individual benefits are not exposed to investment fluctuations, nor are retiree pensions affected by investment market changes. A professional investment manager—the British Columbia Investment Management Corporation (bcIMC)—works on behalf of all members, pooling contributions from active members and employers, and investing these funds in a diverse range of holdings. The Plan receives investment income to build its assets while individual retirees and their pensions are shielded from investment market fluctuations.

To ensure that the funds are sufficient to pay the promised benefits, the Plan engages an actuary, a professional with specialized training in financial modeling, the laws of probability and risk management. The actuary compares the Plan's funding with the promised benefits to estimate how much the Plan needs to receive in future contributions and investment income to pay out future pensions promised to all plan members. See the chart, Funding of the Total Basic Benefit Liability.

If the actuary determines that the Plan does not have enough money to meet this promise, the Board must increase active member and employer contributions equally, as happened in 2005. When there is sufficient or excess funding to pay the promised benefits, rates do not increase (as happened in 2007).

In this system of checks and balances, the Plan employs sound management principles along with advice from investment and actuarial professionals to ensure that the pension promise is kept.

Latest Actuarial Valuation
$ Millions

	Basic Pension Benefits Net Surplus (Unfunded Liability)		
December 31	**2006**	**2003**	**2000**
For Funding Purposes*	$438	($789)	$436
Ratio of Surplus (Unfunded) Liability to Covered Payroll	1%	(14%)	9%
For Accounting Purposes to December 31	$217	($29)	$847

* Assuming contributions continue at rates in effect at the valuation date
See Note 7 and Note 8 to the Financial Statements for additional explanation

Partners, Trustees and Agents

BOTH PLAN MEMBERS AND PLAN EMPLOYERS ARE REPRESENTED ON THE BOARD of Trustees of the Municipal Pension Plan. The Trustees are appointed by the Plan Employer Partner (the Province of British Columbia and the Union of British Columbia Municipalities) and the Plan Member Partner (the Municipal Employees' Pension Committee) as well as by other appointing authorities. This joint governance by members and employers is called joint trusteeship. More information on joint trusteeship is on the Plan website at **mpp.pensionsbc.ca**.

The Municipal Pension Board of Trustees is responsible for governance of the Pension Plan and providing direction to the plan administrative agent (BC Pension Corporation) and the plan investment agent (bcIMC). The Board interprets the Plan Rules and amends them as required, including increasing contribution rates if an actuarial valuation determines that the Plan has a deficit. The Board establishes the Plan's investment policy and monitors investment performance. The Board oversees the administration of the Plan and is the final level of appeal for members and others who dispute the way in which the plan administrative agent has administered the Plan Rules. More information on the appeals process is on the Plan website. The Trustees are responsible for ensuring there is an actuarial valuation at least every three years, that there is an annual financial audit, and for reporting on the Plan's actuarial, financial and operational status to the Plan Partners, members and employers. This annual report is one of the ways in which this reporting obligation is carried out.

The Board takes its fiduciary responsibilities seriously.

The Board holds three regular meetings each year and generally has at least one additional special-purpose meeting. In addition, Trustees sit on at least one of the Board's six committees and/or the Appeals Panel, as well as participating in a number of committees with the other public sector pension boards. See below for more detail on committees. The Board posts highlights of its meetings on the plan web site.

The **British Columbia Pension Corporation** provides benefit administration services as an agent of the Board of Trustees. It provides plan information to members and employers, manages contributions and member records, pays pension benefits, and provides policy, financial and communication services to the Trustees.

The **British Columbia Investment Management Corporation** (bcIMC) is one of Canada's largest investment managers, and administers more than $84 billion in assets under administration with a global exposure and supported by industry-leading investment expertise. The bcIMC offers fund management in all major asset classes including strategic and infrastructure investment. The corporation provides investment management services as an agent of the Board.

PriceWaterhouseCoopers LLP provides external audit services for the MPP.

Eckler Ltd. serves as the Plan actuary for the MPP. The actuary conducts an actuarial valuation on the Plan's funding every three years.

Davis LLP is the legal counsel for the MPP.

Committees of the Municipal Pension Board of Trustees

THE MUNICIPAL PENSION BOARD OF TRUSTEES HAS EIGHT COMMITTEES THAT make recommendations to the Board on a wide variety of issues affecting the Plan. Each committee meets on a regular basis. The committees are:

Benefits

This committee reviews the Plan Rules as they affect benefit entitlements and makes recommendations for changes as required. It monitors and reports to the Board on projected post-retirement group benefits costs and makes recommendations annually for extended health and dental premium rates and the subsidies to be provided. The committee also reviews the Post-retirement Group Benefit Rules and makes recommendations for changes to plan design, coverage levels and cost structure as required. This committee met four times in 2007.

Highlights in 2007 included recommending:

- That the Therabite Jaw Motion Rehabilitation System and related accessories be covered under the Extended Health Benefits plan.
- That the $2,000 annual limit on dental claims be reversed retroactively to the date of its implementation after recognizing it caused hardship to plan members and did not result in significant cost savings to the Plan.

Communications and Education

The Board is committed to providing excellent communications to stakeholders, employers and plan members. This committee supports that commitment by providing communications policy and strategy. It also coordinates Trustee orientation, education and learning initiatives. The committee coordinates plans for the Annual General Meeting, reviews Plan communications materials, and has delegated authority from the Board to approve some communications materials. This committee met nine times in 2007.

Highlights from 2007 included:

- The *2007–2010 MPBT Strategic Communications Plan* was approved by the Board as a basis for communicating in an open, timely, accurate and consistent manner. The *Strategic Communications Plan* is on the website.
- The Sixth Annual General Meeting (AGM) was held October 13, 2007 in Victoria, with over 275 attendees.
- Three new videos about the Plan were debuted at the AGM and on the website.
- The *Report to Members*, *After Work*, various Pensionfacts and bulletins were published in 2007.

Employer Eligibility

This committee reviews and makes recommendations to the Board about the criteria for employer eligibility to join the Plan. When an employer wants to join the MPP, this committee reviews the application to make sure the employer meets the eligibility criteria for the Plan. The committee met four times in 2007.

In 2007, the committee:

- Reviewed 16 applications for employer participation.
- Recommended approval of 13 new plan employers.

Governance

Ensuring that the Board has up-to-date governance policies and procedures, including confidentiality, conflict of interest, Trustee performance and self-assessment, risk management and strategic planning is what this committee is all about. It also monitors contracts and service agreements with major service providers and coordinates nominations for Chair, Vice-chair, the Appeals Panel and all Board committees. The committee met three times in 2007.

Highlights for 2007 included:

- Recommending that the Valuation Committee (see below) become a standing committee rather than an *ad hoc* committee.
- Reviewing the Trustee Code of Conduct.

Investment

This committee reviews and makes recommendations to the Board about its *Statement of Investment Policies and Procedures*, which sets the overall direction for the Plan's investments. It also coordinates periodic asset allocation studies, and makes recommendations on investments. The committee met four times in 2007.

In 2007 the Investment Committee recommended:

- Participation in new investment opportunities, specifically, the bcIMC US Social Index Fund and the bcIMC Enhanced Indexed Europe, Australasia and Far East Equity Fund.
- That the Municipal Pension Plan become a signatory to the United Nations *Principles for Responsible Investment* as an asset owner.

Appeals Panel

The Appeals Panel was established in accordance with the Joint Trust Agreement and has full jurisdiction to consider and decide all appeals. Its role is to determine whether the plan administrative agent applied the Plan Rules correctly; the Panel does not have the authority to change the Plan Rules. Decisions issued by the Panel are posted on the website. In 2007, the Panel met four times.

In 2007, the panel:

- Decided appeal #M210, which confirmed the plan administrative agent's determination of the cost to purchase non-contributory service.
- Approved an Oral Hearing Procedure. An oral hearing may be appropriate in limited circumstances such as where issues of credibility are involved or there are material questions of fact in dispute. The decision whether to conduct an oral hearing rests with the Panel.

Valuation

An *ad hoc* committee since 2005, Valuation became a standing committee in 2007. This committee develops, reviews and recommends revisions to the Municipal Pension Board of Trustees' Funding Policy. The committee works with the Plan actuary to coordinate setting assumptions for actuarial valuations, review of the valuation results and changes to contribution rates, if required. Actuarial valuation is one of the key components for ensuring the financial health of the Plan. The committee met three times.

2007 highlights included:

- Developing the Plan Funding Policy for the Board.
- Coordinating Board education with respect to the actuarial valuation process.
- Working with the Plan actuary to report on the actuarial valuation as at December 31, 2006.

Interplan Audit

The mandate of the Interplan Audit Committee is to act on behalf of, and to assist the boards to provide for:

- a timely and cost-effective system of accounting and reporting,
- financial statements conforming with generally accepted accounting principles,
- an independent audit of the financial statements, and
- an annual report with audited financial statements.

The committee accomplishes its mandate to provide financial oversight by:

- monitoring and reporting to the boards on the integrity of reporting, internal controls, and compliance,
- monitoring and reporting on the independence and performance of the auditors,
- monitoring and reporting on risk management as it affects financial reporting,
- recommending the selection and compensation of external auditors, and
- addressing any matter referred to the committee by one or more of the four boards.

Membership in the committee includes two nominees from each of the boards of the College, Municipal, Public Service, and Teachers' pension plans. All nominees must be ratified by all the boards. The committee must include at least two Trustees who understand generally accepted accounting principles (GAAP), internal controls, and audit committee functions. The committee must meet at least three times a year. In addition to its role of financial oversight through monitoring and reporting, the committee also evaluates its own performance annually through an established procedure.

The Board also participates in the Interplan Benefits, Trustee Education and Investment Committees.

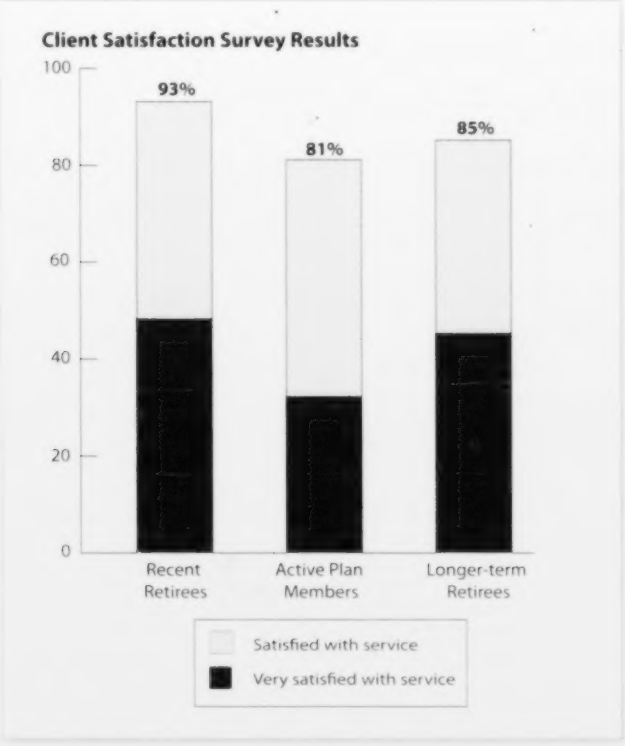
Client Services

WHEN PLAN MEMBERS OR EMPLOYERS VISIT, CALL OR WRITE THE MUNICIPAL Pension Plan to ask questions or get information, one of the team of more than 60 client representatives will answer. This team deals with requests for pension plan information, benefit calculations, employer reporting assistance, retirement seminars and pension applications. They are an experienced and well-trained group, and are a huge part of what makes the Municipal Pension Plan valuable for members and employers.

As the number of retired members in the Plan grows, more and more work is also done to assist with retired plan members' questions, from assisting with group benefits enrolment to advising beneficiaries on possible entitlements on the death of the member.

One significant area of service for the Plan is pension seminars. These seminars explain the basics of the Municipal Pension Plan and cover the retirement process from application to payment of pensions. The seminar program is undergoing a change, and will include a new seminar with information for active members at all stages of their careers, and a revamp of the seminar for those closer to retirement to focus on options and issues at retirement. For more on the seminar program, see the website.

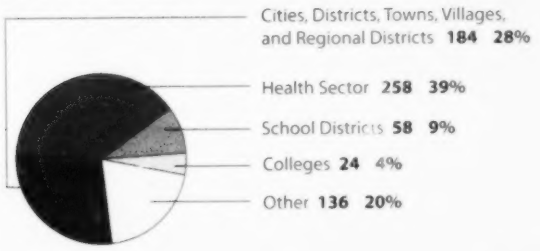
We continue to achieve high member satisfaction results, including 93 per cent of recent retirees who were satisfied or very satisfied with their retirement experience.



Plan Membership

THE MUNICIPAL PENSION PLAN HAS 230,542 MEMBERS WHO WORK FOR 660 employers. Membership is open to all eligible employees of plan employers from the municipal, school district, regional college, health, police, fire, and other sectors. Once an employee elects or qualifies to contribute to the Plan, contributions continue until the member terminates employment, retires, or accrues 35 years of pensionable service.

Municipal Pension Plan Employers
Number of Employers


Cities, Districts, Towns, Villages, and Regional Districts 184 28%
Health Sector 258 39%
School Districts 58 9%
Colleges 24 4%
Other 136 20%

Number of Members
As at December 31

	Active	Inactive	Retired	Total
2007	**150,134**	**26,529**	**53,879**	**230,542**
2006	144,474	24,882	50,666	220,022
2005*	*134,376	*22,796	47,651	204,823
2004	130,043	21,217	44,915	196,175
2003	128,267	18,648	41,681	188,596

* Corrected

There are three types of members in the Municipal Pension Plan:

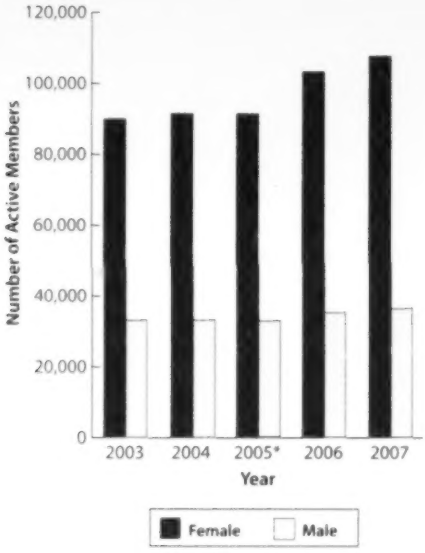
Active—those who are currently contributing, are on a leave of absence, or are receiving benefits from an approved long-term disability plan. There are 150,134 active plan members.

Inactive—those who have terminated their employment, but have left contributions deposited in the Plan. They may or may not be eligible for a pension in the future. Those who are eligible for a future pension are known as vested and deferred members. There are 26,529 inactive plan members.

Retired—those who are receiving a pension, including a disability pension. There are 53,879 retired plan members.

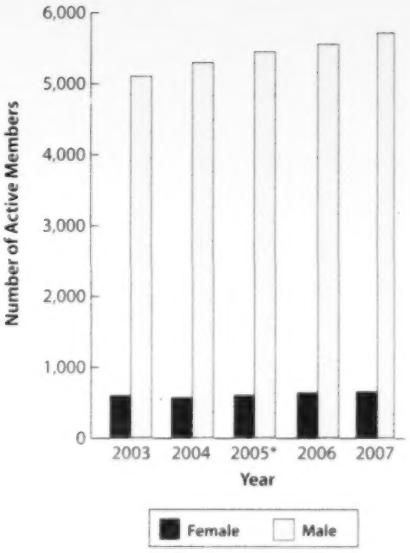
Active membership increased by 5,660 or 3.9 per cent from 2006. The number of retired plan members grew by 3,213 or 6.3 per cent from 2006. The total number of retired members is expected to continue to grow in the next decade as more and more baby boomers reach retirement age.

Active Members—Normal Retirement Age 65
Year ended December 31



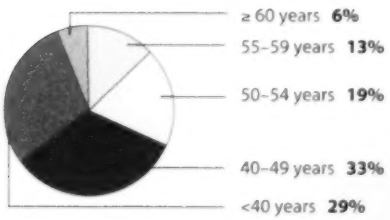
* Corrected

Active Members—Normal Retirement Age 60
Year ended December 31

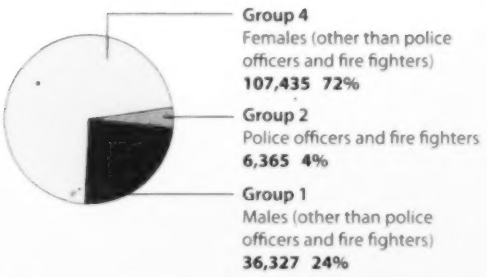


* Corrected

Age Profile of Active Members
As at December 31, 2006

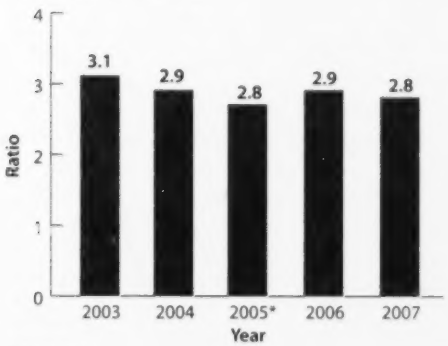


Active Members by Group



Note: There are also seven Group 3 females in a special closed group.

Ratio of Active Members to Retired Members
Year ended December 31



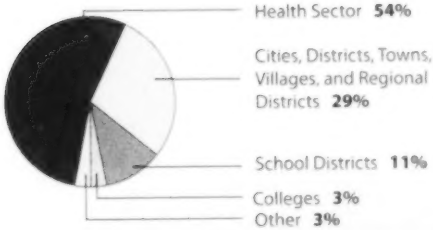
* Corrected

Contributions

MEMBERS OF THE MUNICIPAL PENSION PLAN CONTRIBUTE TO THE PLAN THROUGH automatic deductions from their salary. Both employers and plan members pay contributions to fund future pension benefits.

Employers are annually assigned one or more employer contribution rates based on the group rate classification and the demographics of their respective employee populations. These rates may change from year to year as the employee mix changes in terms of age and/or gender.

Total Regular Contributions by Employer Sector as a Percentage

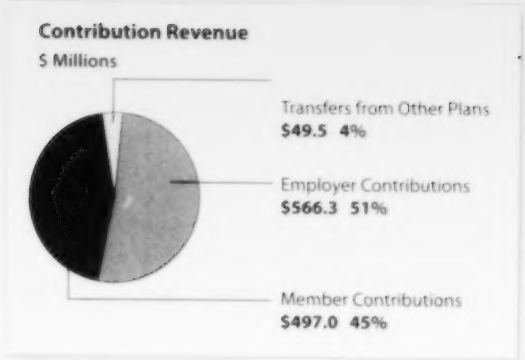


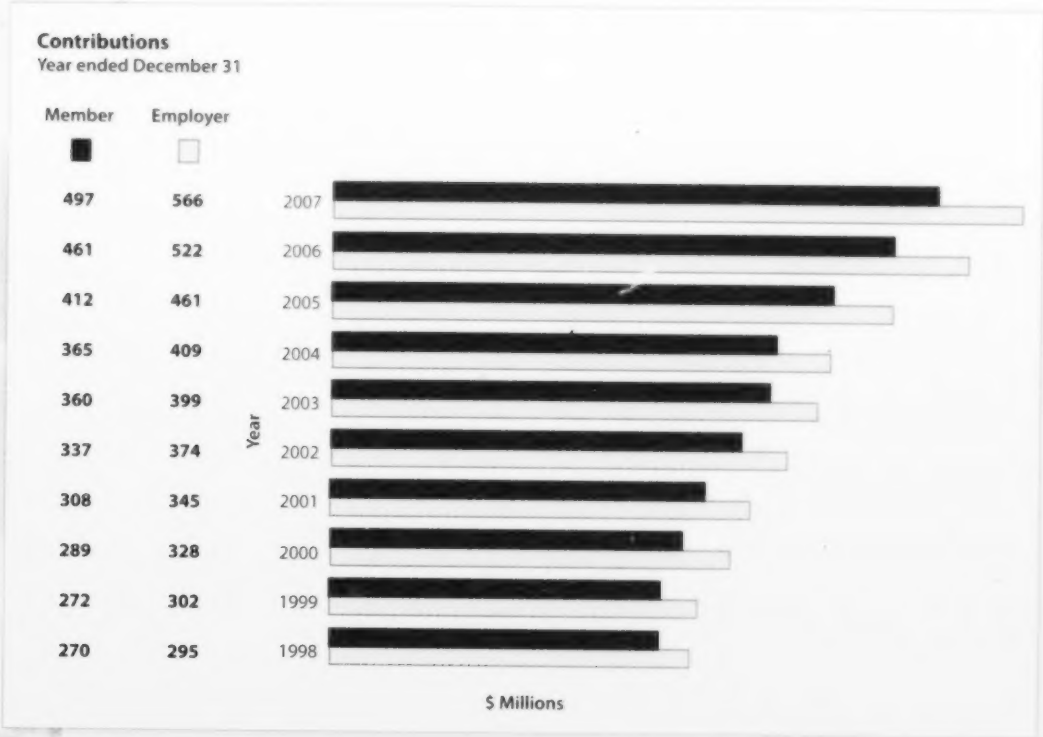
Average Employer Contribution Rates by Sector

Health Sector	8.11%
Cities, Districts, Towns, Villages, and Regional Districts	9.17%
School Districts	8.30%
Colleges	7.85%
Other	8.37%

Members contribute 6.99 per cent of salary up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($43,700 in 2007 and $44,900 in 2008) and 8.49 per cent of salary above that amount.

Once a member terminates employment, retires, or accrues 35 years of pensionable service, they no longer make contributions to the Plan.


Contribution Revenue
$ Millions
Transfers from Other Plans
$49.5 4%
Employer Contributions
$566.3 51%
Member Contributions
$497.0 45%


Contributions
Year ended December 31
Member
Employer
497
566
461
522
412
461
365
409
360
399
337
374
308
345
289
328
272
302
270
295
2007
2006
2005
2004
2003
2002
2001
2000
1999
1998
Year
$ Millions

Benefits

PLAN BENEFITS ARE DEFINED BY THE PENSION PLAN RULES MADE UNDER THE authority of the Joint Trust Agreement.

Plan Benefits

Guaranteed Basic Pension

The basic pension benefit is defined, which means that the pension is based on how many pensionable years the member has accrued in the Plan, the average of the best five years of salary (not necessarily the last five years) and age at retirement. The pension is not based on contributions to the Plan, nor is it based on the investment performance of the Plan's assets. The advantage of a defined benefit plan is that the pension amount can be calculated for future retirement dates, because it is not dependant on market conditions. The Plan provides entitlement to a pension benefit after two years of contributory service. The Plan also provides survivor and disability benefits.

As of December 31, 2007, the Plan provided pensions to 53,879 retired members, an increase of 6.3 per cent from the previous year.

Basic Pension

Monthly pension that is paid by the Plan for a member's lifetime. The pension may continues to another person after the member's death, depending on the option chosen at retirement.

Bridge Benefit

A temporary pension paid to the member from retirement until age 65 or death, whichever comes first.

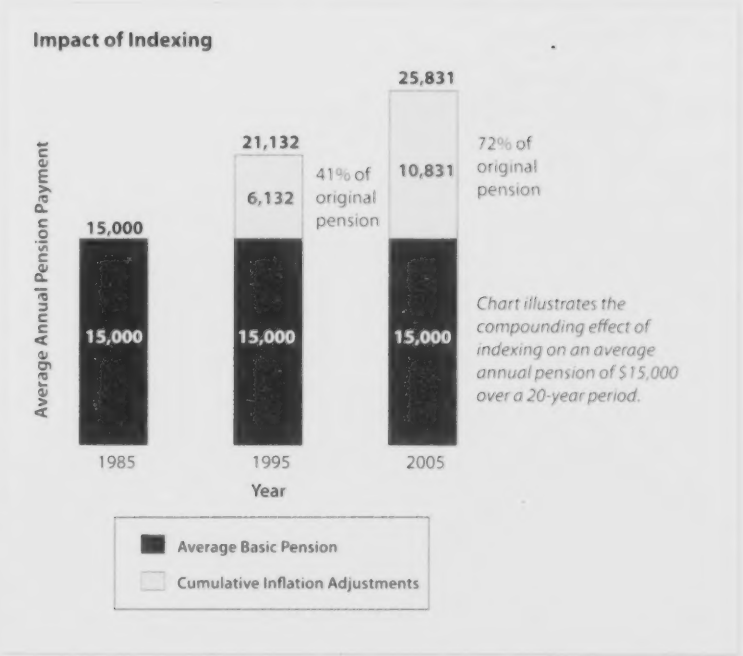
Indexing (Non-guaranteed)

Indexing is a non-guaranteed cost-of-living supplement to the basic pension. It is paid only to the extent that there is sufficient money in the Inflation Adjustment Account (IAA), which is funded by member and employer contributions of one per cent of salary.

On January 1, 2007, retired members received a full Consumer Price Index (CPI) increase of 0.7 per cent. On January 1, 2008, retired members received a full CPI increase of 2.5 per cent. Cost-of-living increases to the pension may be provided each year based on changes in the CPI. (See Note 7b to the Financial Statements). Once granted, the indexing is guaranteed. The Board monitors the Plan's ability to continue to provide indexing.

The Municipal Pension Plan uses a September year-over-year methodology to determine the applicable CPI, while the Canada Pension Plan uses an averaging method over a November to October averaging period. As a result, the annual ad-justments for inflation often appear different between the two plans.

However, over the long term, the different methods return similar results. Over the last 20 years, the total cost-of-living increases granted would have been the same using either calculation method. Annual differences can appear, however, if an unusual event, such as a spike in a particular cost measured in the CPI, occurs in September. The Board did consider changing its methodology this year, but decided that the methodology would remain the same. As a result, this will mean that Municipal Pension and Canada Pension Plan increases will continue to be different every year.



Your pension represents a valuable asset, as shown by the value of pensions granted in 2007.

Average Value of New Regular Pensions—January 1, 2007 to December 31, 2007

Subdivided by years of service

Years of Service*	Number of New Regular Pensions	Average Annual Salary Base	Average Annual Pension	Average Present Value of Pensions	Total Present Value of Pensions ($ Millions)
<10 years	575	$48,000	$ 5,800	$ 68,000	$ 39.3
10–14	591	48,000	11,600	142,000	83.8
15–19	609	51,000	16,400	211,000	128.3
20–24	403	55,000	22,900	297,000	119.5
25–29	454	58,000	30,800	400,000	181.8
30–34	421	60,000	28,000	515,000	216.7
35 years	83	64,000	41,500	585,000	48.6
Total	3,136	n/a	n/a	n/a	$818.0
Average of all pensions	n/a	$ 53,000	$ 20,000	$ 253,000	n/a

* Years of service includes service transferred from other plans

New Regular Pensions by Age at Retirement—Groups* 1, 3 and 4

Normal Retirement Age 65
Subdivided by years of service and age at retirement

Years of Service	55	56–59	60–64	≥65	Total
<10 years	66	134	256	117	573
10–14	101	135	274	77	587
15–19	95	148	285	79	607
20–24	57	100	206	35	398
25–29	58	117	193	25	393
30–34	49	176	92	19	336
35 years	11	29	32	4	76
Total	**437**	**839**	**1,338**	**356**	**2,970**
Average Service	**18**	**20**	**17**	**14**	**18**
Average Age					**59**

* All plan members except police officers and fire fighters

New Regular Pensions by Age at Retirement—Group 2*

Normal Retirement Age 60
Subdivided by years of service and age at retirement

Years of Service	50	51–54	55–59	≥60	Total
<10 years	–	1	1	–	2
10–14	–	1	2	1	4
15–19	–	1	–	1	2
20–24	1	1	2	1	5
25–29	5	38	17	1	61
30–34	8	38	33	6	85
35 years	–	–	6	1	7
Total	**14**	**80**	**61**	**11**	**166**
Average Service	**30**	**29**	**29**	**28**	**29**
Average Age					**55**

* Police officers and fire fighters

Financial Health

ONE OF THE MAJOR ROLES OF THE TRUSTEES IS TO FOCUS ON THE FINANCIAL health of the Plan. The goal is to achieve consistent and steady performance over the long term. To do this the Trustees follow sound investment principles in setting the *Statement of Investment Policies and Procedures* (SIPP), which guides bcIMC. The bcIMC, in turn, selects and manages fund managers to invest Plan funds prudently and ethically.

Every three years, an independent actuary assesses the financial health of the Plan. At the most recent actuarial valuation, as at December 31, 2006, the Plan had a surplus of $438 million.

The next valuation will be as at December 31, 2009, with the results available for the 2010 Annual Report.

The following charts give you a view of the Plan's investment performance.

Five-year Financial Summary

$ Thousands

For the year ended December 31	2007	2006	2005	2004	2003
Increase (Decrease) in Assets					
Investment Income (Loss)*	$ 1,084,547	$ 3,126,011	$ 2,223,665	$ 1,678,462	$1,835,701
Contributions					
Members'	496,994	460,829	412,067	365,471	360,200
Employers'	566,325	522,128	460,608	409,239	398,707
Transfers from Other Plans	49,502	37,623	48,501	37,700	36,880
Total Increase in Assets	2,197,368	4,146,591	3,144,841	2,490,872	2,631,488
Decrease in Assets					
Pension Benefits	762,493	711,134	647,025	593,731	525,142
Termination and Refund Benefits	79,048	65,221	63,996	61,648	46,415
Transfers to Other Plans	45,130	28,273	27,383	37,092	29,586
Retired Member Group Benefits	52,983	55,615	48,347	41,391	52,605
Investment and Administration Costs*	55,453	43,343	39,762	35,179	35,517
Total Decrease in Assets	995,107	903,586	826,513	769,041	689,265
Increase (Decrease) in Net Assets	1,202,261	3,243,005	2,318,328	1,721,831	1,942,223
Net Assets Available for Benefits at Beginning of Year	$23,776,460	$20,533,455	$18,215,127	$16,493,296	$14,551,073
Net Assets Available for Benefits at End of Year	$24,978,721	$23,776,460	$20,533,455	$18,215,127	$16,493,296
Investment and Administration Costs as a Percentage of Net Assets*					
Investment Management*	0.24%	0.19%	0.17%	0.15%	0.13%
Administration	0.08%	0.08%	0.09%	0.09%	0.12%

* External investment management costs incurred in the investment pooled funds by wholly owned corporations of $23.9 million (2006—20.6 million; 2005—$12.6 million; 2004—$7.9 million; 2003—$5.7 million) are not included in investment and administration costs, but are included in investment management costs as a percentage of net assets.

Market Value Rates of Return for the Year Ended December 31, 2007

	Basic Account (%)	Inflation Adjustment Account (%)	Basic Account Performance Benchmarks (%)*	
Annual Rates				
2007	**4.4**	**4.4**	**2.5**	
2006	15.0	15.2	12.2	
2005	12.0	12.5	10.7	
2004	10.0	10.3	10.1	
Five-year Annualized Rates**				
2007	**10.7**	**11.1**	**9.7**	
2006	8.7	9.4	8.1	
Ten-year Annualized Rates**				
2007	**7.5**	**7.8**	**7.1**	
2006	8.4	8.7	8.2	
2006 Annual Rates by Investment Category				**Basic Account Performance Benchmarks***
Short-term				
Money Market	4.6	4.6	4.4	SCI 91-Day T-Bill
Bonds	4.4	4.4	4.5	SCI Short-term Government Bond
Bonds				
Universe***	3.3	3.3	3.7	SCI Universe Bond
Long-term	4.4	4.4	4.4	SCI Government Long Term Bond
Real Return	2.2	1.9	1.6	SCI Real Return Bond
Canadian Equities				
Actively Managed	8.7	8.7	10.2	Active Canadian Benchmark
Indexed	10.6	10.6	10.2	S&P/TSX Equity
Enhanced	11.3	11.3	10.2	S&P/TSX Equity
Strategic Infrastructure	4.0	4.0	10.2	S&P/TSX Equity
U.S. Equities (unhedged)				
Actively Managed	(9.4)	(9.4)	(10.3)	R 1000
Indexed	(10.6)	(10.6)	(10.5)	S&P 500
Value	(13.4)	(13.4)	(13.5)	S&P 500/Barra Value
Enhanced	(10.5)	(10.5)	(10.5)	U.S. Equities Enhances Benchmark
International Equities (unhedged)				
Asia	(0.2)	(0.2)	(2.1)	MSCI Pacific Net
Europe	(4.7)	(4.7)	(3.4)	MSCI Europe Net
Europe, Australia and the Far East	(6.2)	(6.2)	(5.7)	MSCI Europe, Australasia, Far East Net
Real Estate	21.3	21.3	6.4	CPI + 4%
Mortgages				
Fixed-term	3.9	3.9	5.1	SCI Short-term Bond + 1%
Construction	7.1	7.1	5.7	SCI One-year T-Bill + 1%
Specialty	11.6	11.6	7.3	SCI One-year T-Bill + 2.5%

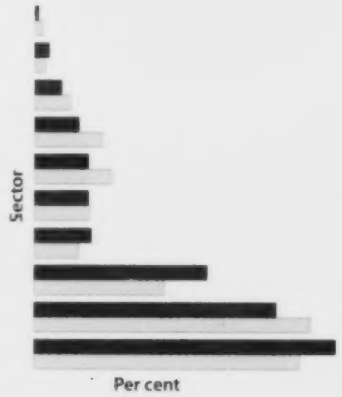
* Benchmarks are standards to compare against actual investment returns.
** An annualized rate means the rate for a five- or ten-year period converted into the equivalent annual rate.
The five-year annualized rate of the Basic Account is the net earned rate of the fund.
*** Universe bonds are comprised of Corporate and Government Bonds.

Performance Benchmark Indices Abbreviations

CPI = Consumer Price Index
MSCI = Morgan Stanley Capital International
R = Russell
SCI = Scotia Capital Inc.
S&P = Standard & Poor's
S&P/TSX = Standard & Poor's/Toronto Stock Exchange
(Source of annual rates: British Columbia Investment Management Corporation)

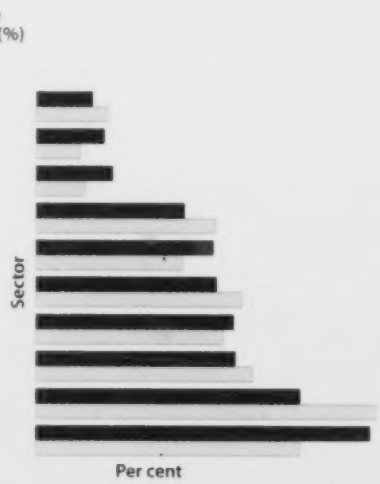
Canadian Equities, by Sector

	Indexed (%)	Actively Managed (%)
Health Care	0.4	0.8
Utilities	1.5	1.1
Consumer Staples	2.8	3.7
Consumer Discretionary	4.6	7.0
Industrials	5.5	8.0
Information Technology	5.6	5.7
Telecommunication Services	5.9	4.6
Materials	17.8	13.4
Energy	24.9	28.4
Financials	31.0	27.3
	100.0%	100.0%



U.S. Equities, by Sector

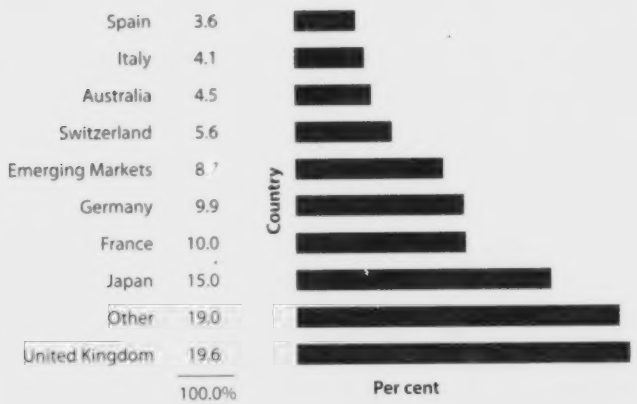
	Indexed (%)	Actively Managed (%)
Materials	3.3	4.2
Utilities	4.0	2.6
Telecommunication Services	4.6	2.9
Consumer Discretionary	8.7	10.5
Consumer Staples	10.4	8.6
Energy	10.6	12.1
Industrials	11.6	11.0
Health Care	11.7	12.7
Information Technology	15.5	19.9
Financials	19.6	15.5
	100.0%	100.0%



■ **Indexed:** A portfolio of securities in approximately the same proportion as a public market index (e.g., Standard & Poor's/Toronto Stock Exchange Composite)

Actively Managed: A portfolio of securities that is designed to outperform a public market index

International Equities, by Country (%)



For more information about the Municipal Pension Plan visit

mpp.pensionsbc.ca

Your Municipal Pension Board of Trustees

KEN BAYNE worked in the finance group at the City of Vancouver for the last 24 years, and has recently been appointed general manager, Business Planning and Services. Ken has been active in the Government Finance Officers Association of BC, including participation as a member of the organization's pension committee.

Ken was appointed to the Board of Trustees in 2001 by the provincial government and the Union of British Columbia Municipalities and holds a position reserved for non-union members of the Municipal Pension Plan. Since 2003, Ken has served three terms as chair and two as vice-chair of the Board.

He holds a Bachelor of Arts (Political Science) and a Master of Science (Business Administration) from the University of British Columbia.

DONISA BERNARDO works as the financial secretary for the Hospital Employees Union (HEU). The Municipal Employees Pension Committee appointed her to the Board of Trustees in 2001. Donisa has worked as a pharmacy technician at Royal Inland Hospital since 1984, and has been involved with the HEU since 1989.

DENNIS BLATCHFORD is the executive and human resources coordinator for the Health Sciences Association of BC (HSA). Before joining the HSA, Dennis was a director for the BC Federation of Labour, working in the areas of health labour relations, human rights and disability advocacy.

The HSA appointed him to the Board of Trustees in 2001. Dennis also served as one of the Canadian Blood Services Defined Benefit Trustees between 1998 and 2004.

ADAM CHARANIA holds a Bachelor of Commerce (Honours) from Queen's University, a Master in Industrial Relations and Human Resources from Queen's, and is a Certified Canadian Human Resources Professional. He is also executive director of industrial relations in the Ministry of Labour and Citizens' Services, and was appointed to the Board of Trustees in 2005 by the provincial government. He has also served on the Public Service Pension Board of Trustees.

Adam has training in mediation, conflict resolution and pensions administration.

BRENDAN DICK is the director of membership services on the staff of the Hospital Employees' Union (HEU), which appointed him to the Board of Trustees in 2003. He has sat on the Interplan Audit Committee for more than ten years. He has served as one of the Canadian Blood Services Defined Benefit Trustees since 2005 and is a past-president of the Hospital Employees' Staff Union.

Brendan has completed the Advanced Trustee Management Standards course parts 1 to 3 and the Responsible Trustee Program through the Sauder School of Business. Brendan has served as the Board chair and is currently the Board vice-chair.

PAT DOYLE is currently the chief human resources officer for the Interior Health Authority, and was appointed to the Board of Trustees in 2004 by the Health Employers Association of British Columbia.

Pat has 30 years experience in human resources in both the private and public sectors. In addition, Pat is currently board chair for the Kelowna Community Food Bank, and was an original board member of the Occupational Health & Safety Agency for Healthcare in BC, and former board member for the Kelowna Chamber of Commerce. Pat holds a Master of Science, Career and Human Resource Development degree and is a member of the Institute of Corporate Directors.

KEITH EWART, a chartered accountant for 30 years, formerly worked as the chief financial officer and director of financial services for the Healthcare Benefit Trust. The trust is responsible for the safe custody and investment of trust assets exceeding $600 million and administration of annual cash flows of $300 million.

Keith was appointed to the Board of Trustees in 2005 by the provincial government and the Union of British Columbia Municipalities, and holds a position reserved for non-union members of the Municipal Pension Plan. He has completed the Independent Corporate Directors diploma program.

HUGH FINLAYSON is the chief executive officer of the BC Public School Employers' Association, and was appointed to the Board of Trustees in 2006. He is a member of the Community Social Services Employers' Association board of directors, and led a series of governance and service development initiatives in the post-secondary and social services sectors. Hugh is a Certified Canadian Human Resources Professional and teaches labour relations and related human resource management courses at the post-secondary level.

STAN HAMBLEY worked as a licensed practical nurse in Victoria before serving for eight years as the secretary-treasurer of his Hospital Employees Union (HEU) local, and then becoming a full-time representative for the HEU. He has assisted union members with WorkSafeBC appeals, long-term disability appeals, and represented members in front of various arbitration boards. Stan was appointed to the Board of Trustees in 2008 by the Council of Joint Unions and Organizations.

HAROLD HEYMING served as the vice-chair of the Interior Savings Credit Union, a trustee of the BC Central Pension and Benefit Trust, vice-president and secretary-treasurer of the BC Professional Fire Fighters Association, and secretary-treasurer of the BC Professional Fire Fighters' Burn Fund. He was appointed to the Board of Trustees in 2003 by the BC Professional Fire Fighters Association and the BC Federation of Police Officers.

Harold is a 32-year veteran platoon captain for the Kelowna Fire Department.

Your Municipal Pension Board of Trustees

(continued)

ROBERT HOBSON has been a director of the Union of British Columbia Municipalities (UBCM) for 13 years, a member of Kelowna City Council for 19 years, chair of the Regional District of Central Okanagan board for 14 years, and has sat on various boards, including the Municipal Finance Authority, the Regional Transportation Advisory Committee, the Central Okanagan Regional Hospital District, and the BC Healthy Communities Coalition.

Robert is a professional planner and administrator who was appointed to the Board of Trustees in 2006 by UBCM. He holds a Master of Arts in Community and Regional Planning and a Master in Public Administration.

GARY JOHNSON is a national representative for the Canadian Union of Public Employees (CUPE), and was appointed to the Board of Trustees in 2001 by the Municipal Employees Pension Committee. He has also served as chair and vice-chair of the CUPE Employees Pension Plan and as a trustee on the Public Education Benefits Trust. Gary has extensive training in pension administration. He is a director on the BC Pension Corporation Board.

JOHN JOHNSTON is the vice-president, human resources and organizational development, for the Vancouver Island Health Authority (VIHA). John was appointed to the Board of Trustees in 2002 by the Health Employers Association of BC.

John holds a Bachelor of Arts, a Master in Business Administration, and a Graduate Certificate in Project Management. His academic qualifications are supplemented by significant training in mediation, conflict resolution, pension administration, and more than 30 years experience in human resource management. John was previously co-chair of the Canadian Blood Services Defined Benefit Plan.

TERRY KILLOUGH brings to the Board of Trustees many years of experience in the public sector, including financial and business management, labour relations and human resources administration. He recently retired as the secretary-treasurer for School District No. 53 (Okanagan Similkameen), a position he held for 25 years. He worked for a total of 32 years in school district administration, and was appointed to the Board of Trustees by the BC Public School Employers' Association in 2001.

Terry holds a Bachelor of Science in Mathematics from the University of British Columbia and a certified general accountant designation.

KELLY KNOX is the senior trustee-elect for the Hospital Employees' Union (HEU), and is currently working as a catheterization laboratory aide. Kelly was first appointed to the Board of Trustees by the HEU in 2003.

LYN KOCHER is the director of finance and administration for the Health Employers Association of BC (HEABC), and was appointed by the HEABC to the Board of Trustees in 2001. She is also a certified general accountant. Lyn has taken the Advanced Trustee Management Standards training, and has sat on the Interplan Audit Committee for four years.

FRANK LEONARD is currently chair of the Municipal Finance Authority, on the board of the Federation of Canadian Municipalities, and has also served as president of the Union of British Columbia Municipalities (UBCM). He has been the mayor of Saanich since 1996 and chairs the Saanich Police Board, serves on the Regional Transit Commission, and has chaired the Capital Regional District Board, the Hospital Board, and the Housing Corporation Board.

Frank was appointed to the Board of Trustees in 2002 by UBCM, and is on the board of directors for the BC Investment Management Corporation. Frank has a Bachelor of Arts (Honours) and a Master of Arts from the University of Victoria.

FRAN MACDONNELL has been a Trustee since 2001, and served on the Municipal Pension Advisory Committee that helped negotiate the Joint Trust Agreement. Fran was appointed originally by the BC Nurses Union (BCNU), and now by the Municipal Employees' Pension Committee in a position reserved for retired members. She was a registered nurse working in the obstetrical unit in Kelowna until she retired in 2004.

Fran has also served as a council member on the board of directors for the BCNU, and as regional chair for the Okanagan Similkameen region of the BCNU.

LOUISE MERCER served on the Municipal Pension Advisory Board and helped negotiate the Joint Trust Agreement. She has completed courses in pension administration offered by the Sauder School of Business, the Humber College Trustee Development Program, and the International Foundation Canadian Investment Institute, as well as the Advanced Trustee Management Standards course part 1. Louise retired in 2002 from her position as director, corporate affairs, for the Public Sector Employers' Council Secretariat. She was appointed to the Board of Trustees in 2001 by the provincial government, and holds a Public Sector Management diploma from the University of Victoria.

BRIAN NORTHAM has served on the executive of the Greater Vancouver Regional District Employees Union for more than 15 years. He was appointed to the Board of Trustees in 2001 by the Council of Joint Unions and Organizations, previously served on the Municipal Pension Advisory Board and helped negotiate the Joint Trust Agreement.

Brian has completed trustee education courses through Humber College, the Sauder School of Business and the International Foundation Canadian Investment Institute. He is also a member of the Association of Canadian Pension Management, and works as an electrician with the Metro Vancouver Utilities Division.

Your Municipal Pension Board of Trustees

(continued)

STEVEN POLAK has been a member of the Municipal Pension Advisory Committee since 1980, and helped negotiate the Joint Trust Agreement. He was one of the founding members of the Municipal Pension Retirees' Association, of which he is also president. He formerly served as a Trustee appointed by the Hospital Employees Union (HEU) before his retirement in 2002, and now by the Municipal Employees Pension Committee in a position reserved for retired members. Steven also chaired the MEPC from 1982 until 2002, and served as a director and provincial executive of the HEU. He was also one of the founding directors of the BC Pension Corporation, and has done extensive pension administration and Trustee training.

PATTI PRICE was appointed to the Board of Trustees in 2006 by the Canadian Union of Public Employees, British Columbia (CUPE BC). Patti was a member of the CUPE BC Pensions Committee before joining the Board. She is a human resources/benefits clerk with the Delta Board of Education, and is responsible for administering about 900 CUPE support staff workers in her school district.

LEN ROSE is the executive officer of the British Columbia Nurses Union (BCNU), and chairs the BCNU Pension Committee. He was appointed to the Board of Trustees in 2008 by the BCNU. Len has a diploma in nursing, has served as a board member of the Occupational Health and Safety Agency in Healthcare, and has training in pensions, health and safety and emergency nursing.

SHARON SAUNDERS is a past chair of the Board of Trustees, was on the negotiating team for the Joint Trust Agreement, and was a member of the Municipal Pension Advisory Board prior to joint trusteeship of the Plan. She was appointed to the Board in 2001 by the British Columbia Nurses Union (BCNU), and currently works as the Early Intervention Program administrator.

She is the staff resource on pensions for BCNU members and supports the BCNU Pension Committee.

LOUISE SIMARD is president and CEO of the Health Employers Association of BC, and was appointed to the Board of Trustees by that organization in 2005. Her former positions have included president and CEO of the Saskatchewan Association of Health Organizations, minister of health, minister responsible for the Public Service Commission, minister responsible for the status of women and other portfolios for Saskatchewan, Saskatchewan Legislative Council, law clerk and private sector lawyer.

Louise has also served as past president and member of the Medical Council of Canada, board director on the boards of Sasktel and SaskPower, and vice chair of the Saskatchewan Human Rights Commission.

ANGIE SORRELL is currently a senior advisor to the Provincial Treasury Board in the Performance Budgeting Office of Treasury Board Staff for the Ministry of Finance. She was the Treasury Board analyst responsible for the vast majority of the public sector wage negotiations in 2006. She was appointed to the Board of Trustees in 2008 by the provincial government.

Angie holds a Master of Public Administration. Her training and work revolves around budget, fiscal and economic analysis.

TODD SWEET has served on the executive board of the New Westminster Police Officers' Association for 10 years, including two as treasurer and six as president. Todd has also served for four years as a trustee with the BC Federation of Police Officers. In those capacities, Todd has been involved in collective bargaining, grievances and lobbying the federal and provincial governments for changes to legislation and public safety issues. He has been a police officer for 18 years. Todd was appointed to the Board of Trustees in 2005 by the BC Federation of Police Officers.

RICHARD TAYLOR is a founding Trustee of the Board and was appointed by the Union of British Columbia Municipalities (UBCM) in 2001. He came to the Board of Trustees through his position as executive director of UBCM from 1985 to 2007.

He has been directly involved in pension matters since 1988, including the original UBCM advisory committee, the 1990s Superannuation Commission advisory committee and as UBCM's representative during the Joint Trust Agreement negotiation. He is also a director and past chair of both Pacific Blue Cross and the BC Pension Corporation Board.

Richard holds a Master of Science in community and regional planning. He has held public service roles at the local government level for over 30 years.

BRAD UNDERWOOD is the director, compensation data and research in the Public Sector Employers' Council Secretariat and was appointed to the Board of Trustees in 2006 by the provincial government. He has completed courses in pensions and group benefits through the Certified Employee Benefits Specialist program, has taken the Advanced Trustee Management Standards program levels 1 and 2, and holds a Certificate of Pension Fund Management.

Brad, a former senior policy analyst with the BC Pension Corporation, holds a Bachelor of Political Science and a Master in Public Administration from the University of Victoria. He previously worked in municipal parks and recreation services.

MARIA WAHL has 20 years of experience as president of a local union, giving her knowledge of agreements and negotiations, rule interpretation and conflict management. Maria has completed level 3 of the Advanced Trustee Management Standards program, and other pension administration courses through the Sauder School of Business. She is currently a bylaw supervisor for the City of Port Moody, and was appointed to the Board of Trustees in 2001 by the Canadian Union of Public Employees.

PENSION
CORPORATION

Executive
Offices

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Victoria BC
V8W 9V8

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MUNICIPAL PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Municipal Pension Plan (Plan) were prepared by the British Columbia Pension Corporation (Corporation), the administrative agent for the Municipal Pension Board of Trustees (Board) for the Plan. The Board is responsible for having annual financial statements prepared in accordance with Canadian generally accepted accounting principles. The Corporation prepares the financial statements on the Board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Municipal Pension Plan Annual Report conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Ltd. has been appointed the independent consulting actuary to the Plan by the Board. The role of the actuary is to complete an actuarial valuation of the Plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of PricewaterhouseCoopers LLP has been appointed the independent auditor to the Plan by the Board. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the Auditors' Report attached to these financial statements.

RON MILLARD, FCGA
Director, Finance
British Columbia Pension Corporation

SANDRA LENZ, CA
Chief Financial Officer
British Columbia Pension Corporation

May 12, 2008

PRICEWATERHOUSECOOPERS

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Chartered Accountants
PricewaterhouseCoopers Place
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May 12, 2008

Auditors' Report

To the Members of the
Municipal Pension Plan

We have audited the statement of net assets available for benefits of the **Municipal Pension Plan** as at December 31, 2007 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the board of trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as at December 31, 2007 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2006 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 10, 2007.

PricewaterhouseCoopers LLP

Chartered Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

As at December 31	2007	2006
ASSETS		
Investments at fair value (Note 3)	$ 25,034,347	$ 23,739,975
Receivables		
Members' contributions	20,200	20,143
Employers' contributions	21,844	21,680
Accrued investment income	2,542	2,484
Due from sale of investments	2,788	13,286
	47,374	57,593
Prepaid expenses	5,409	3,583
Cash	1,197	7,275
Total Assets	$ 25,088,327	$ 23,808,426
LIABILITIES		
Payable for purchase of investments	95,352	13,286
Accounts payable and accrued expenses	14,254	18,680
Total Liabilities	109,606	31,966
NET ASSETS AVAILABLE FOR BENEFITS	$ 24,978,721	$ 23,776,460

All accompanying notes are an integral part of these financial statements including:

- Actuarial Valuation of the Basic Account for Funding Purposes (Note 7)
- Actuarial Valuation of the Basic Account for Accounting Purposes (Note 8)
- Commitments (Note 11)

Lyn Kocher
Trustee,
Municipal Pension Board of Trustees

Brendan Dick
Trustee,
Municipal Pension Board of Trustees

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

For the year ended December 31	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals 2007	2006
INCREASE IN ASSETS						
Investment income (Note 4)	$ 887,922	$ 14,919	$ 181,706	$ -	$ 1,084,547	$ 3,126,011
Contributions (Note 5)						
Members'	419,464	8,667	66,856	2,007	496,994	460,829
Employers'	473,820	10,594	28,022	53,889	566,325	522,128
	893,284	19,261	94,878	55,896	1,063,319	982,957
Transfers from other plans	36,712	-	12,790	-	49,502	37,623
Total Increase in Assets	1,817,918	34,180	289,374	55,896	2,197,368	4,146,591
DECREASE IN ASSETS						
Pension benefits	642,481	-	-	1,681	644,162	592,042
Indexing supplements	118,237	-	-	94	118,331	119,091
	760,718	-	-	1,775	762,493	711,133
Termination and refund benefits	43,105	11,961	23,879	103	79,048	65,221
Transfers to other plans	33,275	144	11,711	-	45,130	28,273
Retired member group benefits (Note 10)	-	-	-	52,983	52,983	55,615
Investment and Administration costs (Note 9)	48,288	-	6,130	1,035	55,453	43,344
Total Decrease in Assets	885,386	12,105	41,720	55,896	995,107	903,586
INCREASE IN NET ASSETS BEFORE TRANSFERS	932,532	22,075	247,654	-	1,202,261	3,243,005
Account transfers (Note 6)	58,062	(12,097)	(45,965)	-	-	-
INCREASE IN NET ASSETS	990,594	9,978	201,689	-	1,202,261	3,243,005
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	19,400,618	329,439	4,046,403	-	23,776,460	20,533,455
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 20,391,212	$ 339,417	$ 4,248,092	$ -	$ 24,978,721	$ 23,776,460

Supplemental Benefits Accounts (Note 10)

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN

The Municipal Pension Plan (Plan) is a jointly trusteed pension plan governed by a Joint Trust Agreement (Agreement). Joint trusteeship was established on April 5, 2001. The partners to the Agreement are the Municipal Employees' Pension Committee, as the member partner, and the provincial government of British Columbia and the Union of British Columbia Municipalities, as the employer partners (Partners). The Agreement describes the composition, appointment, powers, functions and duties of the Municipal Pension Board of Trustees (Board) and provides the authority for the Board to make Plan rules. The following brief description of the Plan is provided for general information only. For more information please refer to the Agreement and the Plan rules.

a) General

Membership in the Plan is open to all eligible employees of a municipality, school district, college, health service organization, police and fire fighters, and many other eligible employers as designated by the Board.

b) Roles and Responsibilities

The Board of Trustees
The Partners are responsible for directing amendments to the Plan, if certain conditions are met, and for resolving trustee disputes. The Partners and key stakeholders appoint sixteen trustees representing Plan members and Plan employers. The Chair and the Vice Chair are appointed by the other trustees. The Board is fully responsible for the management of the Plan, including investment of the assets and administration of the Plan. The Board may amend the Plan rules as long as changes can be funded by pension fund surpluses or are cost-neutral to the Plan (subject to transitional funding provisions in Note 7). Unless required to ensure compliance with regulatory enactments applicable to the Plan, Plan rule changes that result in contribution rate changes can only be initiated by the Partners.

British Columbia Pension Corporation (Pension Corporation)
The Pension Corporation provides benefit administration services as an agent of the Board.

British Columbia Investment Management Corporation (bcIMC)
bcIMC provides investment management services as an agent of the Board.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

c) Contributions

Basic Account
Members contribute to the Basic Account 5.99% of salaries up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($43,700 in 2007) and 7.49% of salaries over the YMPE, less amounts allocated to the Supplemental Benefits Account (Notes 5 and 10).

Employers contribute to the Basic Account at varying rates, depending on the mix of employees in the group rate classifications specified by the Plan, less amounts allocated to the Supplemental Benefits Account (Notes 5 and 10).

Inflation Adjustment Account
Members contribute 1% of salaries to the Inflation Adjustment Account (IAA). Employers contribute 1% of salaries to the IAA, less amounts allocated to the Supplemental Benefits Account (Notes 5 and 10).

Retirement Annuity Account
Some employers have special agreements with members by which additional contributions are made to increase members' pension benefits. These contributions are credited to the Retirement Annuity Account. Depending on benefit eligibility the accumulated monies at retirement are used to fund the purchase of a pension (Note 6) or are paid out as lump sum benefit.

d) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups);
- at age 60, with at least 2 years contributory service (age 55 for certain groups); or
- at age 55 or older, with age plus years of service totaling 90 or more (age 50 or older and age plus service equaling 80 or more for certain groups).

Other retiring members have a reduction formula applied to their pensions.

The defined basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the Plan provides an unreduced benefit of 1.3% of pensionable earnings up to the YMPE and 2% of pensionable earnings over the YMPE for each year of pensionable service (to a maximum of 35 years). Pensionable earnings are based on the member's five-year highest average salary (HAS).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

d) Pension Benefits (continued)

The Plan also provides a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.7% of the lesser of YMPE or the HAS.

Increases to pension payments may be provided each January 1 in accordance with the indexing provisions of the Plan. These increases are based on the annual increase in the Canada Consumer Price Index (CPI) as at the previous September 30, subject to availability of funds in the Inflation Adjustment Account (Notes 6 and 7b).

At January 1, 2007, retired members received a full CPI increase of 0.7% (2006: 3.4%). At January 1, 2008, retired members will receive a full CPI increase of 2.5%.

e) Termination and Portability Benefits

A terminating member, who is eligible for a pension but has not reached the earliest retirement age, may choose:

- a deferred pension; or,
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements, or if under age 60 with less than two years of contributory service (age 55 for certain groups), may also choose a refund of contributions with interest.

Termination benefits cannot be accessed until one year from the date a terminating member stops contributing.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer certain pension rights.

f) Other Benefits

Disability and survivor benefits are also available under the Plan. Supplemental benefits (Note 10) may also be funded from the Supplemental Benefits Account. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefits.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

g) Income Taxes

The Plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act (Canada)*, except for any supplemental benefits (Note 10) which are funded in addition to the RPP. The Plan is not subject to income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements are prepared on the going concern basis and present the Plan as a separate financial reporting entity, independent of the Plan's contributing employers and members, and independent of any associated retired member group benefit plans. The Statement of Net Assets Available for Benefits shows the assets under control of the Board, and does not purport to show whether these assets are adequate to meet the obligations of the Plan. The actuarial valuation of the basic account for funding purposes is included in Note 7.

b) Investments

Investments are stated at fair value and consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly based on the value of the underlying assets. Where available, fair values of those assets are based on public market prices or quotations from investment dealers. Where public market prices or quotations are not available, fair values are derived using valuation methods such as discounted cash flows, earning multiples, appraisals, prevailing market rates for instruments with similar characteristics and other pricing models, as appropriate. The value of derivative contracts is included in the fair value of pooled investment portfolios.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards of ownership have been transferred).

c) Investment Income

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder. The current period change in fair value includes realized and unrealized gains and losses which are included in investment income.

Within the pools, dividends are accrued on the ex-dividend date. Income received and paid from derivative contracts is recognized on the accrual basis. Gains and losses on derivative contracts are recognized concurrently with changes in their fair values.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Use of Estimates

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of increases and decreases in assets during the period. Significant areas requiring the use of management estimates relate to the valuation of investments and the estimate of the actuarial position of the Basic Account. Actual results could differ from those estimates.

3. INVESTMENTS (FAIR VALUE)

	2007			2006
	Basic Account	Inflation Adjustment Account	Total	Total
	($ Thousands)			
Short-term	$ 898,349	$ 189,078	$ 1,087,427	$ 925,870
Canadian Bonds (Note 11)	5,334,084	1,077,356	6,411,440	5,868,051
Canadian Equities	3,351,914	682,945	4,034,859	3,907,359
U.S. Equities	2,684,406	544,147	3,228,553	3,632,007
International Equities	3,264,247	663,911	3,928,158	4,480,401
Foreign Currency	33,274	7,164	40,438	44,044
Mortgages	993,224	201,772	1,194,996	939,610
Real Estate	3,117,408	636,197	3,753,605	2,915,384
Private Placements	1,095,281	259,590	1,354,871	1,027,249
	$ 20,772,187	$ 4,262,160	$ 25,034,347	$ 23,739,975

Plan investments consist primarily of direct ownership in units of pooled investment portfolios managed by bcIMC. Each unit gives its holder a proportionate share in the net assets of the pooled investment fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

3. INVESTMENTS (FAIR VALUE) (continued)

Short-term investments consist of Canadian and U.S. money market securities, such as treasury bills, with terms of 15 months or less and short-term bonds with one to five year terms. Canadian bonds consist of government and corporate bonds and debentures and include real return bonds of $956.1 million (2006: $966.7 million) that are directly held by the Plan. Equities consist primarily of publicly traded shares, and, in the case of international equities, refer to investments in the markets of Europe and Asia, as well as key emerging markets. The foreign currency pooled fund engages in the buying and selling of foreign currency financial instruments to enhance returns through the active management of foreign currency exposure.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of diversified Canadian income-producing properties. Private placements consist mainly of Canadian and international long-term debt or equity investments made outside of the structure of public markets (Note 11).

The mortgages are secured by real estate and are valued using current market yields. Real estate investments are valued quarterly by bcIMC's external real estate investment managers and, at least once every ten to eighteen months by accredited independent appraisers to establish current market values. Private placements are valued annually based on financial statements from private placement external managers.

Derivative contracts are held indirectly through various pooled investment portfolios to enhance return, manage exposure to interest rate and foreign currency risk, and for asset mix management purposes. Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates, or exchange rates.

A separate investment asset portfolio is not held for Retirement Annuity Account assets. For administrative purposes, the Retirement Annuity Account assets are included in Basic Account Investments (2007: $339.4 million; 2006: $329.4 million).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

4. INVESTMENT INCOME

	2007			2006
	Income Allocation	Current Period Change In Fair Value	Total	Total
		($ Thousands)		
Basic Account				
Short-term	$ 42,014	$ 1,732	$ 43,746	$ 31,406
Canadian Bonds	233,190	(58,200)	174,990	147,126
Canadian Equities	62,654	255,778	318,432	538,831
U.S. Equities	82,712	(174,038)	(91,326)	405,873
International Equities	100,044	(242,138)	(142,094)	775,756
Foreign Currency	1,624	(3,634)	(2,010)	3,169
Mortgages	37,433	5,331	42,764	38,085
Real Estate	78,850	407,808	486,658	523,624
Private Placements	28,330	43,351	71,681	127,552
	$ 666,851	$ 235,990	$ 902,841	$ 2,591,422
Less Retirement Annuity Account Income Allocation			(14,919)	(43,066)
			$ 887,922	$ 2,548,356
Inflation Adjustment Account				
Short-term	$ 7,612	$ 309	$ 7,921	$ 6,713
Canadian Bonds	46,771	(12,184)	34,587	24,789
Canadian Equities	12,643	51,472	64,115	111,082
U.S. Equities	16,629	(35,631)	(19,002)	82,190
International Equities	20,171	(49,261)	(29,090)	157,944
Foreign Currency	348	(780)	(432)	687
Mortgages	7,540	1,137	8,677	7,367
Real Estate	15,880	82,393	98,273	109,815
Private Placements	12,983	3,674	16,657	34,002
	$ 140,577	$ 41,129	$ 181,706	$ 534,589
Total Investment Income			$ 1,084,547	$ 3,126,011

Investment income represents pooled investment portfolio income attributable to the Plan, as a unitholder, and as calculated by bcIMC, and interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio. The Retirement Annuity Account is allocated a share of Basic Account investment income based on the annual rate of return of the Basic Account.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

5. CONTRIBUTIONS

	2007					2006
	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Supplemental Benefits Account	Total	Total
	($ Thousands)					
Members' contributions						
Regular	$ 398,247	$ -	$ 63,744	$ 2,007	$ 463,998	$ 433,708
Special Agreements	-	8,667	-	-	8,667	8,266
Arrears	1,961	-	277	-	2,238	1,514
Purchase of service	9,259	-	1,546	-	10,805	7,753
Leave of absence	2,494	-	413	-	2,907	1,588
Reinstatement	7,503	-	876	-	8,379	8,000
	$ 419,464	$ 8,667	$ 66,856	$ 2,007	$ 496,994	$ 460,829
Employers' contributions						
Regular	$ 456,112	$ -	$ 25,668	$ 906	$ 482,686	$ 442,673
ERIP contributions	-	-	-	-	-	50
Special Agreements	-	10,594	-	-	10,594	10,106
Arrears	3,154	-	400	-	3,554	2,681
Purchase of service	11,612	-	1,551	-	13,163	9,123
Leave of absence	2,942	-	403	-	3,345	1,880
Supplemental benefits	-	-	-	52,983	52,983	55,615
	$ 473,820	$ 10,594	$ 28,022	$ 53,889	$ 566,325	$ 522,128
Total Contributions	$ 893,284	$ 19,261	$ 94,878	$ 55,896	$ 1,063,319	$ 982,957

Member and employer contributions are as defined under the Plan rules.

6. ACCOUNT TRANSFERS

	2007			2006		
	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Basic Account	Retirement Annuity Account	Inflation Adjustment Account
	($ Thousands)					
Present value of current indexing supplements	$ 44,893	$ -	$ (44,893)	$ 197,388	$ -	$ (197,388)
Indexing of deferred pensions	4,763	-	(4,763)	4,148	-	(4,148)
Excess Interest	-	-	-	-	-	-
Pensions purchased from Retirement Annuity Account	8,406	(12,097)	3,691	12,969	(18,355)	5,386
	$ 58,062	$ (12,097)	$ (45,965)	$ 214,505	$ (18,355)	$ (196,150)

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

6. ACCOUNT TRANSFERS (continued)

The Inflation Adjustment Account (IAA) is a separate account that is maintained for funding current and future indexing supplements. The IAA is funded through a portion of ongoing contributions from employers and members (Note 1c), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is also transferred from the IAA to the Basic Account.

There have been no excess interest transfers to the IAA for the years ended December 31, 2002 through 2007. Excess interest is based on investment income earned on those Basic Account assets required for pensions currently being paid, approximately $7.3 billion of assets for 2007 (2006: $6.7 billion). The excess interest rate of return is determined by taking the difference between the actual five-year annualized market rate of return (10.70%) and the rate of return used by the actuary (6.75%) in valuing the Plan's liabilities. The calculated excess interest rate of return for 2007 was 3.95% (2006: 1.7%) resulting in a positive excess interest amount of $286.7 million (2006: $113.1 million). The cumulative negative excess interest amount of $157.0 million will be offset against future positive excess interest amounts before positive excess interest transfers will resume.

Excess Interest	2007	2006
	($ Millions)	
Cumulative negative excess interest, beginning of year	$ (400.8)	$ (472.8)
Interest applied to beginning of year amount	(42.9)	(41.1)
Excess interest	286.7	113.1
Cumulative negative excess interest, end of year	$ (157.0)	$ (400.8)

A separate Retirement Annuity Account is maintained to record additional contributions by employers and members under special agreements. If a member is entitled to, and chooses to, purchase a pension at retirement, monies are transferred from the Retirement Annuity Account to the Basic and the Inflation Adjustment Accounts to fund the pension.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
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7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

An actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the Plan's actuary values both accrued assets and benefit obligations to the financial statement date, and contributions and benefits for future service. The actuary's calculated contribution rate is based on the entry-age method. This method produces the level rate of the member and employer contributions sufficient to provide benefits for the average future new entrants to the Plan.

The most recent full actuarial valuation for funding purposes was prepared as at December 31, 2006 by Eckler Ltd. This valuation disclosed a surplus for basic pension benefits of $438 million (2003: $789 million unfunded actuarial liability), assuming future contributions at the contribution rates in effect at the valuation date. The following long-term actuarial assumptions were used:

- annual investment return 6.75% (2003: 7.00%)
- annual salary escalation rate 4.00% (2003: 4.50%)

The main changes between the 2003 and 2006 valuation are as follows:

	($ Millions)
Unfunded actuarial liability as at December 31, 2003	$ (789)
Interest on unfunded liability	(178)
Investment income lower than actuarial rate of return	(294)
Smoothed assets limited to 90% of fair value of assets	372
Changes in valuation assumptions	(554)
Contributions above normal cost	115
Salary increases lower than assumed	733
Contribution rate increases	1,220
Other actual experience different than expected	(187)
Actuarial surplus as at December 31, 2006	$ 438

The next full actuarial valuation will be as at December 31, 2009, for inclusion in the December 31, 2010 financial statements.

Based on the results of the 2006 actuarial valuation, the actuary determined that no change in basic contribution rates was necessary.

MUNICIPAL PENSION PLAN
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7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

The Joint Trust Agreement (Agreement) specifies a transitional period during which surplus assets or actuarial gains must be used to achieve the following objectives, in order of priority:

- Eliminating any unfunded liability
- Rebalancing member and employer contribution rates and providing specified benefit improvements when sufficient surplus assets allow simultaneous implementation
- 50% of any additional surplus assets must be transferred to a Contribution Rate Stabilization Reserve, and 50 % must be transferred to the IAA, to an aggregate total of one billion dollars. The Contribution Rate Stabilization Reserve will be shared on an equal (50/50) basis in order to maintain or reduce future member and employer contribution rates.

After these transitional objectives have been achieved, the agreement describes the manners in which the Board can elect to apply surplus assets so as to achieve over time an equitable sharing of the benefits of the surplus assets between members and employers.

The Agreement describes that if at any time, an actuarial valuation indicates that increased basic contribution rates are required to fully fund the Plan on a going-concern basis, the increase must be shared equally by members and employers.

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA, since the obligation for future indexing benefits is limited to the amount of the available assets in the account. As indexing is granted to retired members, full funding for that granted indexing, on a net present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of indexing required to be paid under the Plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential indexing.

The Board monitors the performance of the IAA and, at least annually, reviews a sensitivity analysis of the projected impact on the IAA of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investment rates of return and group health benefits costs. This sensitivity analysis assists the Board to identify scenarios, some years in advance of their possible occurrence, when the IAA assets may cease to grow and when the Plan may not be able to grant full indexing of benefits. As long as there are contributions to the IAA, there will be some measure of indexing protection for retired members.

MUNICIPAL PENSION PLAN
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8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

An actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in Note 7a. As part of the actuarial valuation, the actuary also calculates values, for accounting purposes, of the Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included, in contrast to their inclusion in the valuation for funding purposes in Note 7a.

The Basic Account is the account from which the defined basic benefits of the Plan are paid. It is also the account from which any indexing that has been granted to retired members is paid. Future indexing benefits are not guaranteed within the Plan provisions and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits. As indexing is granted, the Basic Account receives from the IAA the present value funding necessary for the indexing granted. Therefore, accrued basic pension benefits for valuation purposes include the liability for all indexing granted to the date of the valuation, but not for as yet unknown future indexing.

The latest full valuation for accounting purposes was made as at December 31, 2006, by Eckler Ltd. The results were as follows:

As at December 31	2006	2003
	($ Millions)	
Net assets available for basic pension benefits	$ 19,401	$ 13,227
Five year market value smoothing adjustment	(1,940)	465
Net actuarial assets for basic pension benefits	17,461	13,692
Liability for accrued basic pension benefits	17,244	13,721
Actuarial Surplus/(Unfunded Actuarial Liability - UAL)	$ 217	$ (29)

The next full actuarial valuation will be at December 31, 2009 for inclusion in the December 31, 2010 financial statements.

The liability for accrued basic pension benefits at the valuation date is determined using the projected benefit method prorated on service. Net assets are valued using five-year market value smoothing. For accounting purposes, an estimate of the actuarial position between valuations is required. This estimate, called an extrapolation, has been made to December 31, 2007, using the following long-term actuarial assumptions:

- annual investment return 6.75%
- annual salary escalation rate 4.00%

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8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

On that basis, the extrapolated value of the surplus at December 31 is as follows:

Extrapolated Actuarial Assets Available for Basic Pension Benefits As at December 31	2007	2006
	($ Millions)	
Extrapolated actuarial assets, beginning of year	$ 17,382	$ 15,968
December 31, 2006 valuation adjustment	79	-
Extrapolated actuarial assets, beginning of year	17,461	15,968
Account transfers	58	214
Current year contributions	911	841
Net transfers from other plans	3	7
Pension, termination and refund benefits	(806)	(750)
Retired member group benefits	(16)	(15)
Administration costs	(18)	(18)
Interest accrued on assets	1,185	1,135
Extrapolated actuarial assets, end of year	$ 18,778	$ 17,382

Extrapolated Actuarial Liability for Accrued Basic Pension Benefits As at December 31	2007	2006
	($ Millions)	
Extrapolated actuarial liability, beginning of year	$ 17,392	$ 16,051
December 31, 2006 valuation results	(148)	-
Extrapolated actuarial liability, beginning of year	17,244	16,051
Account transfers	58	214
Current period benefit cost	852	765
Net transfers from other plans	3	7
Pension, termination and refund benefits	(806)	(750)
Retired member group benefits	(16)	(15)
Administration costs	(18)	(18)
Interest accrued on liability	1,169	1,138
Extrapolated actuarial liability, end of year	$ 18,486	$ 17,392
Extrapolated Actuarial Surplus (Unfunded Actuarial Liability), December 31	$ 292	$ (10)
Fair value of Basic Account net assets available for benefits	20,391	19,401
Fair value changes not reflected in extrapolated assets	(1,613)	(2,019)
Extrapolated actuarial assets	$ 18,778	$ 17,382

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8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation.

No unfunded liability exists for the IAA, since the obligation for future indexing benefits is limited to the amount of the available assets in the account.

9. INVESTMENT AND ADMINISTRATION COSTS

	2007	2006
	($ Thousands)	
Investment Management	$ 36,178	$ 24,437
Benefit Administration	17,594	17,427
Board Remuneration and Expenses	427	377
Board Secretariat Costs	430	343
Other Professional Services	824	760
	$ 55,453	$ 43,344

bcIMC and the Pension Corporation are related parties to the Plan. The Board appoints members to each of the respective corporate boards.

Costs for investment management services charged by bcIMC include costs for recovery of its internal and external investment management fees except those external management fees related to corporations wholly owned by investment pooled funds.

Investment management costs of $23.9 million (2006: $20.5 million) representing the external management costs incurred by wholly owned corporations of the investment pooled funds are not included in the above amount.

Benefit administration costs represent amounts charged to recover benefit administration costs incurred by the Pension Corporation. These costs are approved by the Board. Included in accounts payable is $2.7 million (2006: $2.2 million) due to the Pension Corporation for those costs.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Board secretariat costs represent amounts for staffing and other costs associated with Board support.

Other professional services include actuarial, insurance, audit and legal fees.

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10. SUPPLEMENTAL BENEFITS

The Supplemental Benefits Account is the account through which certain supplemental benefits are funded. For example, pension benefits which exceed the *Income Tax Act (Canada)* limits for registered pension plans are paid through this account. Certain group benefit coverage may also be provided for retired members through the account. The availability, type and level of retired member group benefit coverage are contingent upon the availability of funding for such benefits.

To the extent dental and extended health benefits are funded through the Supplemental Benefits Account, they are funded from current contributions that would otherwise be employer inflation contributions and are limited to these contributions. To the extent medical service plan premiums are funded through the Supplemental Benefits Account, they are funded from current contributions that would otherwise be employer basic contributions. Retired member group benefits costs (shown on the Statement of Changes in Net Assets Available for Benefits) represent group benefit costs paid by the Plan less any premiums paid by retired members. Effective February 1, 2008, funding for retired member group benefits cannot exceed 0.8% of pensionable salaries.

11. COMMITMENTS

The Plan participates in private placement and international real estate pools managed by bcIMC. As at December 31, 2007, the Plan's share of commitments (over the next several years) for future investment contracts in these pools is approximately $1,123.4 million (2006: $951.7 million).

bcIMC has established collateral accounts for the Plan that are pledged as security for future investment opportunities. As at December 31, 2007, $35.2 million (2006: $25.1 million) of Basic Account Canadian Bonds are being held as collateral for an investment commitment of $13.2 million and other assured investment activity.

12. FINANCIAL INSTRUMENTS

The Plan's investments are recorded at fair value. Other financial instruments consist of cash, accounts receivable, accounts payable and accrued expenses. The fair values of these financial instruments approximate their carrying values.

The Board approves the long-term asset mix policy for investment assets through its Statement of Investment Policies and Procedures and oversees the management of these assets through the Board's investment management agent, bcIMC.

MUNICIPAL PENSION PLAN
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12. FINANCIAL INSTRUMENTS (continued)

Fair values of investments are exposed to price risk and credit risk. Price risk is comprised of foreign currency risk, interest rate risk, and market risk. Foreign currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract.

Foreign Currency Risk
Foreign currency exposure arises from foreign currency denominated investments and related derivative contracts held indirectly through pooled investment portfolios. Foreign currency forward contracts are used by the underlying pools to manage a portion of the currency exposure. A foreign currency forward contract is a contractual obligation either to buy or sell a specified amount of foreign currency at a predetermined future date and exchange rate.

Interest Rate Risk
The value of the Plan's assets is affected by changes in interest rates and their effect on capital markets. Actuarial liabilities are affected by changes in long-term market interest rates.

Market Risk
Market risk is reduced through asset class diversification, diversification within each asset class and credit quality constraints on fixed income instruments.

Credit Risk
bcIMC limits derivative contract credit risk by dealing principally with counterparties that have a credit rating of A or higher as rated by the Dominion Bond Rating Service or equivalent.

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